

Message Text

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ACTION XMB-04

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DEPT PLEASE PASS EXIMBANK

E.O. 11652: N/A
TAGS: BPRO EFIN IR
SUBJ: INVESTMENT GUARANTEES GENERAL/FCIA CREDIT INSURANCE:
J.G. WHITE-GOI HOUSING ORGANIZATION

REF (A) TEHRAN 2277 (B) STATE 42798

1. SUMMARY: DIRGEN FOR FOREIGN CREDITS OF THE MINISTRY OF ECONOMIC AFFAIRS AND FAIRNESS (MEAF) MADE COMPREHENSIVE STATEMENT REITERATING GOI POSITION THAT SERVICE CONTRACTS DO NOT FALL UNDER PURVIEW OF 1957 AGREEMENT FOR PURPOSES OF ISSUANCE OF INSURANCE AND THAT WHEN SUCH CONTRACTS ARE SIGNED BY COMPONENTS OF THE GOVERNMENT, IT IS NEITHER APPROPRIATE OR NECESSARY FOR MEAF OR ANY OTHER BRANCH OF THE GOVERNMENT TO ISSUE WHAT IS IN EFFECT A SECOND GUARANTEE. END SUMMARY.

2. PER REFTEL A, PARA 8, EMBASSY SOUGHT APPOINTMENT FOR J.G. WHITE REP AT MEAF TO DISCUSS QUESTION OF IRANIAN GOVERNMENT GUARANTEE COVERING FCIA CREDIT INSURANCE FOR \$3.5 MILLION DOLLAR CONTRACT BETWEEN WHITE AND HOUSING ORGANIZATION.

3. DURING CORDIAL MEETING MARCH 17 WITH WHITE REP AND EMBOFF, DR. REZA KHALEGI-ROD, DIRGEN FOR FOREIGN CREDITS, REITERATED
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GOI POSITION THAT CONTRACTS ISSUED FOR SERVICES ARE SUBJECT TO NORMAL RECOURSE ACCORDING TO TERMS OF CONTRACT AND COMMERCIAL/JUDICIAL CODES AND CANNOT BE DEFINED AS INVESTMENTS UNDER THE TERMS OF THE AGREEMENT FOR GUARANTEE OF INVESTMENT PROJECTS.

4. HE FURTHER EMPHASIZED THAT MINISTRY CANNOT BE PLACED IN POSITION OF GUARANTEEING CONTRACTS SIGNED BY OTHER AGENCIES OF

THE GOVERNMENT IN GOOD FAITH ACCORDING TO APPROVED PROCEDURES
(IN THIS CASE PLAN AND BUDGET ORGANIZATION OF IRAN VETTING.)
HE EXPRESSED BELIEF THAT NO OTHER GOVERNMENTS WOULD RE-GUARANTEE
AN ALREADY VALID OBLIGATION OF ITS OWN GOVERNMENT.

5. WHITE REP STATED THAT TERMS OF CONTRACT CALL FOR MULTI-PHASE
PAYMENT, OF WHICH FIRST SEGMENT IS \$1 MILLION. ADVANCE PAYMENT
FOR FIRST SEGMENT IS 25 PERCENT OF \$250,000. WHITE REP SAID
THAT IN ORDER TO MEET COMPLETION DATES IN SCHEDULE, HIS FIRM
WOULD NEED TO EXPEND A CERTAIN AMOUNT EXCEEDING 25 PERCENT ADVANCE
AND THAT THIS CONSTITUTED AN INVESTMENT OF RESOURCES, ETC.

6. KHALEGI-ROD REPLIED THAT NORMAL PAYMENT TERMS WERE FOR
ACCEPTANCE OF SERVICES RENDERED, THAT 25 PERCENT DOWN PAYMENT
WAS GENEROUS IN VIEW OF FACT THAT MOST SUPPLIERS OF GOODS AND
SERVICES RECEIVE NO MONIES UNTIL GOODS AND SERVICES ARE DELIVERED.
IN FACT, HE SAID, J.G. WHITE AND SIMILAR FIRMS WERE ACTUALLY
SEEKING BRIDGE FINANCING. HE RESTATED THAT INVESTMENT GUARANTEE
PROCEDURE WAS NOT AN APPROPRIATE VEHICLE FOR SUCH FINANCING WHICH
SHOULD BE OBTAINED THROUGH NORMAL COMMERCIAL BANKING PROCEDURES
IF NEEDED.

7. HE FURTHER STATED THAT MINISTRY CAN INVOKE GUARANTEE SYSTEM
ONLY IF EACH INVESTMENT HAS RECEIVED COUNCIL OF MINISTERS
APPROVAL AND HAS BEEN THE SUBJECT OF A SEPARATE DECREE APPROVING
THE PROJECT FOR PURPOSES OF INSURANCE UNDER THE AGREEMENT.
PROJECTS WHICH ARE CONTRACTED OUT FROM OTHER GOVERNMENT AGENCIES
DO NOT NECESSARILY FALL UNDER THE COUNCIL OF MINISTERS DECREE
SYSTEM. HE REJECTED SUGGESTION, ON GROUNDS CITED IN PARA 4
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ABOVE, THAT A MINISTRY STATEMENT INDICATING THAT PROJECT WAS
APPROVED BUT NOT RECOGNIZED FOR PURPOSES OF INVESTMENT INCENTIVES
AND OTHER PREROGATIVES UNDER GUARANTEE SYSTEM WOULD SOLVE PROBLEM.

8. FYI: GOI IS EXTREMELY SENSITIVE ON THIS ISSUE BECAUSE REQUESTS
FOR INSURANCE ON CONTRACTS CARRY THE INTIMATION THAT THE CON-
TRACTOR BELIECES THE GOVERNMENT MAY DELAY OR DEFER PAYMENTS.
KHALEGI-ROD TOOK SOME MINUTES TO DENOUNCE REPORTS IN THE WESTERN
PRESS THAT GOI HAD BEEN DELINQUENT IN PAYMENTS ON SOME CONTRACTS.
HE SAID SUCH REPORTS REGRETTABLY DID NOT GIVE THE FULL PICTURE;
E.G., THAT SOME PAYMENTS HAVE BEEN SLOW OR LONG-DELAYED BECAUSE
GOVERNMENT AGENCIES CONCERNED HAD DISCOVERED THAT THEY HAD TO
MONITOR CONTRACTS VERY CAREFULLY TO EVALUATE IF FOREIGN SUPPLIERS
OF GOODS AND SERVICES HAD LIVED UP TO TERMS OF CONTRACTS. THE
FACT THAT DELAYED PAYMENTS MAY BE CAUSING PROBLEMS TO SOME CON-
TRACTORS IS IN THE EYES OF THE MINISTRY NOT RELEVANT TO THE
ISSUE, ALTHOUGH IT UNDOUBTEDLY HAS CONTRIBUTED TO THE REASONS
FOR WHICH COMPANIES LIKE J.G. WHITE HAVE APPLIED FOR FCIA
OR SIMILAR INSURANCE.

9. COMMENT: THE MINISTRY CLEARLY WILL NOT ISSUE A GUARANTEE
FOR THIS OR OTHER SIMILAR CONTRACTUAL OBLIGATIONS. AS DISCUSSED
IN REFTEL A, THE HOUSING ORGANIZATION IS WHOLLY-GOVERNMENT
OWNED AND EXIM/FCIA MAY DECIDE THAT IT CAN ISSUE INSURANCE
WITHOUT A FORMAL MEAF GUARANTEE.
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